David Youngberg
ECON 202—Montgomery College

TOPIC 01: INTRODUCTION

I. What is economics?
   a. The study of choice
   b. The study of optimality (or how to get the most out of life)
   c. The study of scarcity
      i. What is not scarce? (No scarcity, no markets.)
   d. *Macroeconomics* is concerned with the economy as a whole, dealing with big concepts such as inflation, growth, and employment.
   e. *Microeconomics* focuses on the actions of individuals, households, and firms in a single market.
      i. Macroeconomics is built from microeconomic ideas; if you've had macro before, the beginning of this course will be familiar.

II. Thinking about economics
   a. Economists draw a distinction between two common ways people think about economics.
   b. *Positive economics* focuses on description. It uses economic logic and facts to describe how people act.
   c. *Normative economics* focuses on assigning value. It makes value judgments on if certain results are good or not.
   d. It's one thing to say what the effects of increasing the minimum wage would be. It's another thing to say if increasing the minimum wage is a good idea.
   e. Sometimes normative economics looks like positive economics because advocates for one position or another will highlight the positive economics that support his or her view.

III. **Fundamental Idea One: Incentives matter.**
   a. This is because people are *rational*—choosing the best action given their preferences and constraints.
   b. Because incentives matter, choosing the right incentives changes everything. This has enormous implications for policy and economic development.
      i. Economists are always aware of the danger of *unintended consequences*—outcomes not originally intended by an acting individual
      ii. In 2008, the Romania government provided vouchers to buy computers to every family below the poverty line. Economists

Ofer Malamud and Cristian Pop-Eleches examined the effects and found *worse* scores in math, English, and Romanian for the kids who qualified for the voucher because the students spent so much time playing video games. They had an incentive to buy a computer, but they didn't have an incentive to use a computer to help with their studies.

IV. **Fundamental Idea Two: There are always opportunity costs.**

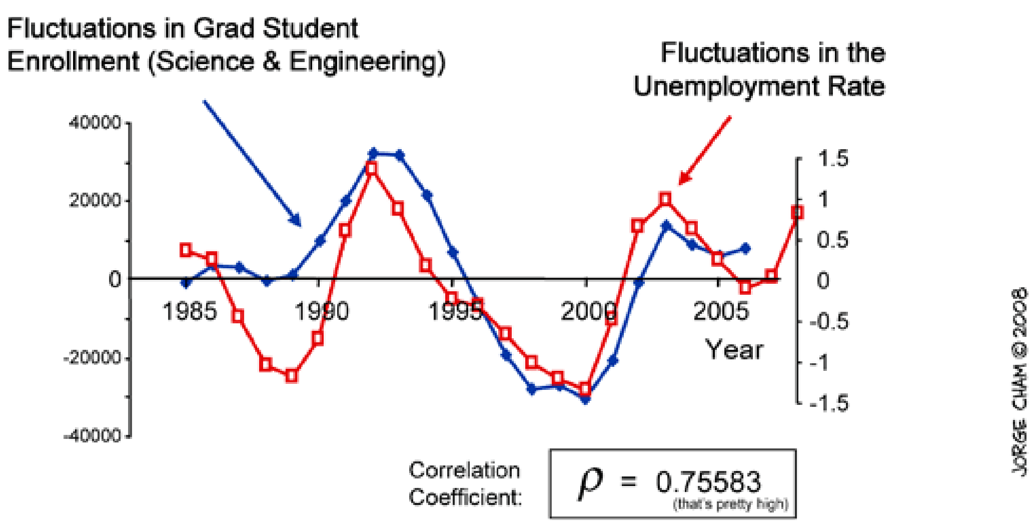
a. Because we deal with scarce resources, we have to make choices. Whenever we choose one thing, we give up something else we did not choose.

b. *Opportunity cost*—the gain of the next best option.

i. Keep in mind that an opportunity cost is a *forgone benefit*. The opportunity cost of doing something is a good thing you *did not* get to do.

ii. When the opportunity cost is high, that means you are sacrificing a lot; when it is low, you are sacrificing little.

iii. Consider this diagram about the relationship between unemployment and graduated school enrollment. There's an opportunity cost story here explaining the strong correlation; what is it?



c. Accounting framework

i. Benefit – Expenses = Accounting Profit

ii. Ex: If I make $50 selling apples and it costs $40 bringing them to market, my profit is $10.

d. Economic framework

i. Accounting Profit – Opportunity Cost = Economic Profit

ii. Ex: If, instead, I could have spent $45 selling candy apples for a total of $60, my opportunity cost is $15
iii. Since $10 – $15 = -$5, I have negative economic profits. Since I could have made more selling candy apples I actually made a loss. My opportunity cost is high.
iv. In other words, opportunity cost is an implicit cost. It is not a cost explicitly enumerated (such as the cost of materials or labor). As a forgone opportunity—as a benefit that could've been earned—it is an implicit cost. But it is still a cost.

e. Example: In 2024, Red Lobster declared bankruptcy. Some people blamed the private equity firm that purchased the chain because they sold off the land the Red Lobster restaurants owned. The locations had to start paying rent they could not afford.
   i. But Red Lobster was already paying rent in the form of forgone income. They could have been renting that land out to someone else. The private equity firm merely turned that implicit cost into an explicit cost.
   ii. Another way to think about it: Red Lobster was so unpopular that there were better uses for that land, a reality hidden behind the fact that locations were not explicitly paying rent.[1]

[1] Red Lobster's problems were more fundamental: it was an aging brand from a time when lobster was exotic. Restaurants are a competitive and dynamic industry and it was not changing with the times, resulting in lower and lower turnout. Endless Shrimp—an attempt to put butts in seats—ended up making things worse. Why it failed has a lot to do with a concept called asymmetric information. It's a topic we'll handle later and if we have time (and you remind me), we'll discuss the Endless Shrimp example.